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How should tenant approach lease renewals?

One of the biggest mistakes a tenant can make is starting the process too late. Many tenants wait for their landlord to contact them. This approach will leave the landlord holding all the cards. A tenant should start his renewal/relocation process five to six months prior to the expiration of his current lease. This will allow enough time to adequately review the current market, negotiate a deal and complete any necessary tenant improvements.



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In a strong landlord's market, many tenants are not being afforded the opportunity of renewing their lease. These tenants typically don't have renewal options in their current lease and the landlord wants to take possession of the space due to realignment of tenant mix, for a larger tenant, or to occupy the space itself.

Some tenants let their leases go on month-to-month status. Month-to-month leases leave the landlord with all the control and the tenant with uncertainty. There are two important facts about month-to-month leases: (1) most leases have a "holdover" clause that will immediately boost the tenant's current rent by 150 percent to 200 percent; and (2) many leases are silent as to what timing is required for the landlord to change the terms of the month-to-month tenancy. Colorado's statute only requires 10 days' notice prior to the next payment period.

If renewing in your location is an option for your company, the first step would be to request a renewal proposal. If the owner of your building fails to respond to your renewal request in a timely manner, it's probably time to begin looking elsewhere for new lease space.

Landlords are involved with the leasing market on a day-to-day basis, negotiating numerous leases every year. Tenants typically negotiate a lease every three to five years and move their company one every 10 years, putting the tenant immediately at a disadvantage. Most tenants tend to focus on the base rents and fail to focus on other areas of negotiation: method of measuring space; services included in the lease; hours of building operation; parking charges; operating expense increases; subleasing/assignment rights; default and penalties; and tenant finish.

Tenants who are uninformed on the market pay a big price for not having any negotiating leverage. The easiest way for a tenant to quickly become educated on the current market is to choose a commercial real estate broker who is competent in the type of transaction and product the tenant occupies and work with that broker on an exclusive basis. Like the landlord's broker, the tenant broker is also in the market on a daily basis, therefore enabling the tenant to quickly understand what the market rate for its space is and what parts of the deal may be more negotiable than others.

Professional advice in negotiating a lease for space is a must if the tenant wants to obtain the best deal. The professionals involved are typically a commercial real estate broker, an attorney and a space planner. A tenant acting without these professionals will compromise its negotiation ability and open itself up to greater expense and legal exposure.

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